Stock Review of Techno Funda Research Product – Early Signals Buy

October 22, 2009

Early Signals Call Information Data	Scrip Code	Grade	Face Value	Reco. Dt.	Reco. Price	CMP	Target	Stop Loss
ESAB INDIA LTD.	500133	C	Rs.10	16 Oct., 09	Rs. 439	Rs.450	Rs. 516	Rs.373

SHARE HOLDING (%)

Promoters	55.6
FII	10.6
FI / MF	9.3
Body Corporates	2.9
Public & Others	21.6

STOCK DATA

Reuters Code	**ESAB.BO**
Bloomberg Code	**ESAB@IN**
BSE Code	**500133**
NSE Symbol	**ESABINDIA**
Market Cap	**Rs.6.9 bn**
Shares Outstanding(*)	**15.39 mn**
52 Weeks (H/L)	**Rs.473/195**
Avg. Daily Volume (6m)	**4,078 Shares**

Price Performance (%)

1M	**3M**	**6M**
1	7	50

200 Days EMA Rs.384

* fully diluted equity

- ESAB India Ltd is one of the leading suppliers of welding and cutting products in the country. It is engaged in the business of welding consumables (includes welding electrodes, copper coated wires and welding fluxes) and of welding equipment (includes welding machines and cutting equipment.)
- ESAB India's core strength lies in its strong backing by ESAB Group (part of Charter International PLC Group, UK) which is the 2nd largest welding & cutting equipment company in the world after Lincoln Electric. Globally, welding & cutting equipments is a US $17 bn industry with Indian industry standing at 3% of the total industry size. ESAB India enjoys ~17% market share in India.
- ESAB India has been on an expansion spree since 2006. It has set up a new plant at Irungattukotai and new MIG line at Kardah. It has started manufacturing Flux cored wires and Stick electrodes at its Irungattukotai (Chennai) plant and is also adding capacities at its Khardah (Kolkata) plant which manufactures wires and electrodes.
- ESAB India is also in process of significantly expanding its capacity at Nagpur Plant to eventually achieve a capacity of 20,000 tonnes per annum and is modernizing & expanding Taratala Plant for Gas equipments business to cater demand from overseas .
- The fortunes of ESAB India are linked with the consumption of steel in the country. Although in FY09, the consumption of steel had stagnated, the parent company expects a growth of ~10% in Asia (ex-china) in 2010. Given the strong demand revival, we believe its FY10 growth could be +15%.
- During 9MCY09, its Sales, EBITDA and PAT remained flat at Rs. 3149.8 mn, Rs. 788.3 mn & Rs.516.2 mn respectively, whereas, its EBITDA margins grew by 131 bps to 25%. ESAB India has a strong balance sheet with zero debt and strong cash position, which has enabled it to fund its expansions.
- ESAB India has paid 155% dividend since past two years, inspite of the capital expenditure plans. At CMP of Rs.450, ESAB India is available at an attractive valuation of 9.4x its CY10E AEPS of Rs.48.0 and P/BV of 3.3x.

Y/E Dec.	Revenue (Rs.mn)	APAT (Rs.mn)	AEPS (Rs.)	AEPS (% chg)	P/E (x)	ROCE (%)	ROE (%)	P/BVPS (x)
CY08	4226.2	611.8	39.8	14.6	11.3	51.3	50.8	5.1
CY09E	**4141.7**	**646.1**	**42.0**	**5.6**	**10.7**	**42.5**	**42.1**	**4.1**
CY10E	**4762.9**	**739.3**	**48.0**	**14.4**	**9.4**	**39.3**	**39.0**	**3.3**

Viral Shah | viral.shah@sushilfinance.com | +91 22 4093 5045

CY08 Results Update

- During CY08, ESAB India posted a robust growth in sales of 23% to Rs. 4226.2 mn, although the global economic downturn witnessed during Q4CY08 did impact its Q4 performance adversely. Its Consumables segment grew by 25.6% YoY largely driven by better price realization and favorable product mix. The equipment business posted a growth of 17.2% YoY driven by growth in automation and cutting systems business.
- Its EBITDA grew by 13.3% YoY to Rs. 906.2 mn, and its EBITDA margins declined by 187 bps to 21.4%, owing to pricing pressure, higher input costs and product mix. Staff cost grew by 26.4% YoY owing to payroll revisions to maintain parity with industry standards.
- Its PBT including other income grew by 14.3% YoY to Rs. 952.2 mn due to above mentioned reasons and higher other income, which included better realizations on sale of scrap, growth in income from investments arising from higher cash accruals and a one time reversal of provisions in respect to long pending assessments on indirect taxation. Its PAT grew by 14.6% YoY to Rs. 611.8 mn and its PAT margins stood at 14.5 %.

Key Updates

- ESAB India has increased its stake in Ador Welding, one of its competitors, to 1.36% during Q3CY09 from 1.22% (in CY08).
- ESAB India merged its 100% subsidiary, Esab Welding and Cutting Systems with itself w.e.f. 1 July 2008. All the assets and liabilities of the subsidiary Company vested on ESAB India w.e.f. 1 January 2008.
- Esab India has invested Rs.4.9 mn in Esab Engineering Services Ltd. which is primarily into business of design, development, testing and manufacturing support services for ESAB group Companies outside India.
- The Parent Company Charter Plc Group, UK had made a voluntary cash offer to the equity holders of Esab India (in 2007) to acquire shares from the market at Rs. 426 per share. In response to this offer the public had surrendered 18.25% of equity shares, which increased the promoters stake in Esab India to 55.56%.

Risks

- The industry has low entry barriers with large number of unorganized players and fragmented nature of the industry, which may lead to unhealthy price competition.
- Lincoln Electric, globally the largest welding consumables player, has recently set up a plant in Chennai, which could pose a threat to market share of Esab India in Indian market.

BALANCE SHEET STATEMENT (Rs.mn)

As on 31st Dec	CY07	CY08	CY09E	CY10E
Share Capital	153.9	153.9	153.9	153.9
Reserves	883.6	1216.3	1547.3	1935.4
Shareholders Funds	**1037.6**	**1370.2**	**1701.2**	**2089.4**
Total Debt	**0.0**	**0.0**	**0.0**	**0.0**
Capital Employed	**1037.6**	**1370.2**	**1701.2**	**2089.4**
Net Block	**610.7**	**677.0**	**752.3**	**826.4**
CWIP	62.9	122.2	100.0	100.0
Investments	**167.0**	**119.8**	**119.8**	**119.8**
Current Assets	778.6	1097.6	1409.1	1685.8
Current Liabilities	566.4	642.0	675.6	638.3
Net Current Assets	**212.2**	**455.6**	**733.4**	**1047.5**
Net Deferred Tax	(15.3)	(4.3)	(4.3)	(4.3)
Total Assets	**1037.6**	**1370.2**	**1701.2**	**2089.4**

PROFIT & LOSS STATEMENT (Rs.mn)

Y/E Dec	CY07	CY08	CY09E	CY10E
Revenue	**3429.5**	**4226.2**	**4141.7**	**4762.9**
Total Expenditure	2629.9	3320.0	3159.2	3630.3
EBITDA	**799.6**	**906.2**	**982.4**	**1132.6**
Interest	8.8	9.2	9.0	8.0
EBDT	**790.8**	**897.0**	**973.4**	**1124.6**
Depreciation	56.1	66.7	74.7	85.9
EBT excl. OI	**734.7**	**830.3**	**898.7**	**1038.7**
Other Income	74.6	94.9	80.7	81.5
EBT incl OI	**809.3**	**925.2**	**979.4**	**1120.2**
Tax	275.3	313.4	333.3	380.9
APAT	**534.0**	**611.8**	**646.1**	**739.3**
Extraordinary items	0.0	0.0	0.0	0.0
RPAT	**534.0**	**611.8**	**646.1**	**739.3**

Source: Company, Sushil Finance Research Estimates

Disclaimer

As the title suggests, the objective of this report is to provide early signals to investors about stocks, which are likely to witness price up move in medium to long term. Companies are selected based on certain Fundamental / Technical indicators and it may be possible that our view on these stocks may have been formed without meeting the company management. We advise caution as far as investing / disinvesting in these stocks since these stocks are not strictly based on detailed technical / fundamental analysis. All the data appearing in this report is from sources believed to be reliable but we do not guarantee that it is correct or accurate.

Additional information with respect to any securities referred to herein will be available upon request.

This report is prepared for the exclusive use of Sushil Group clients only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. Any unauthorized use, disclosure or public dissemination of information contained herein is prohibited. This report is to be used only by the original recipient to whom it is sent.

This is for private circulation only and the said document does not constitute an offer to buy or sell any securities mentioned herein. While utmost care has been taken in preparing the above, we claim no responsibility for its accuracy. We shall not be liable for any direct or indirect losses arising from the use thereof and the investors are requested to use the information contained herein at their own risk.

This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information, on which the report is based, has been obtained from sources, which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice.

Sushil Financial Services Private Limited and its connected companies, and their respective directors, officers and employees (to be collectively known as SFSPL), may, from time to time, have a long or short position in the securities mentioned and may sell or buy such securities. SFSPL may act upon or make use of information contained herein prior to the publication thereof.